

Event Proceedings Report

Philippine banks navigate digital transformation amid legacy challenges, identity verification gaps, and regulatory pressures

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01 Introduction

TAB Global, AWS, Red Hat, and Temenos held a Luncheon Roundtable Dialogue on 26 September 2024, with industry leaders discussing digital transformation, overcoming legacy system barriers, fostering collaboration in financial ecosystems, expanding inclusion through alternative credit, and streamlining compliance for global connectivity.

The roundtable discussion centred on the following four major themes:

Theme 1: Digital transformation through balancing innovation with practical implementation.

Theme 2: Financial inclusion expansion through alternative credit scoring and microfinance.

Theme 3: Ecosystem collaboration as a catalyst in financial services innovation.

Theme 4: Operational resilience and overcoming barriers in legacy systems and compliance.

Theme 5: Streamlining compliance for global connectivity through regulatory evolution and cross-border payments.

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Panelists

- **Victor Lim**, Head of Operations and Technology, BAP Data Exchange Inc.
- **Ma. Cristina L. Go**, EVP and Head of Consumer Banking, BPI
- **Alexander Seminiano**, Chief Technology Officer, BPI
- **Delfin Jay Sabido**, SVP and Chief Innovation and Transformation Officer, Chinabank
- **Jove Tapiador**, Vice Chairman, Fintech Philippines Association
- **Rashell Cabrera**, B2B, Senior Manager, Strategy Planning, GCash
- **Kenneth Catugas**, Head of Information Technology, ING Hubs Philippines
- **Dennis Tagonan**, Chief Information Officer, Security Bank
- **Lucose Eralil**, Executive Vice President and Chief Operating Officer, Security Bank
- **Mark Anthony De Leon**, Channels Head, Sterling Bank of Asia
- **Frankie Wai**, Business Solution Director, Temenos
- **Dennis Omila**, Chief Transformation Officer, UnionBank of the Philippines
- **Sonja Davidovic**, Advisor, BIS Innovation Hub
- **Michael Araneta**, Lead, ASEAN Banking Go-To-Market (GTM), AWS
- **Urs Bolt**, Global Expert on Fintech, WealthTech, Digital Banking, The Banking Academy
- **Alex Escucha**, Former Senior Vice President, China Banking Corp., International Resource Director, The Asian Banker
- **Foo Boon Ping**, President and Managing Director, The Asian Banker
- **Christian Kapfer**, Research Director, The Asian Banker

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Key discussion points

3.1 Digital transformation in banking while balancing innovation with practical implementation

Industry leaders emphasised the need to prioritise optimising legacy systems for cost-effective modernisation in the banking sector, while leveraging cloud services and artificial intelligence (AI) to improve financial processes. Cultural transformation and collaboration between banks and fintechs were identified as critical for successful digital innovation. Key challenges include talent shortages, slow digital adoption in rural banks, and delays in implementing the national ID system, which impact know-your-customer (KYC) and credit risk assessments. Addressing vulnerabilities in digital identities and ensuring robust fraud prevention were highlighted as essential for secure and scalable innovation.

3.2 Financial inclusion expansion by leveraging alternative credit scoring and microfinance

The role of rural banks in financial inclusion was highlighted, emphasising the importance of digitising local trust and scaling efforts through digital platforms. Participants noted the potential of alternative credit scoring models, using data like telco usage and spending habits,

to serve underserved markets, including micro, small and medium-sized enterprises (MSMEs). The need for banks to invest in data science to enhance credit scoring for underserved populations was highlighted, along with concerns over the slow development of credit scoring systems in the Philippines compared to Thailand. Lower default rates among women in micro-finance were identified as an opportunity to expand financial inclusion.

3.3 Collaboration as a catalyst for building ecosystems in financial services innovation

Collaboration in the Philippine banking sector is key, focusing on open banking ecosystems and partnerships between banks, fintechs, and government agencies. Discussions covered the creation of a shared fraud and risk database to combat financial crime, the expansion of rural bank-fintech collaborations to enhance digital services, and the assurance of regulatory compliance through standardisation in open banking initiatives. These efforts aim to drive industry transformation and more inclusive financial services.

3.4 Barriers to modernisation in legacy systems and compliance must be overcome

Attendees noted that legacy systems in banking hinder modernisation. Local banks are actively working to transform their systems but face difficulty keeping up with digital innovation. Regulatory compliance added complexity, as the Philippines still faces outdated frameworks, especially in credit scoring and KYC processes. Integrating new technology with legacy systems presents both financial and operational challenges.

3.5 Streamlining compliance for global connectivity through regulatory evolution and cross-border payments

The regulatory environment was seen as both a challenge and an opportunity. Compliance costs, particularly related to information and communications technology (ICT) risks and data privacy, were burdensome. However, initiatives like cross-border payments and wholesale central bank digital currencies (CBDCs) offer hope for a more interconnected financial system. Industry leaders called for stronger regulatory frameworks for open banking and data sharing, while emphasising the need to balance compliance with innovation. Collaboration between banks and regulators remains crucial for addressing vulnerabilities, streamlining compliance, and enhancing fraud prevention efforts through national ID systems and advanced privacy technologies.

04 Detailed Discussion and Insights

4.1 Digital transformation in banking while balancing innovation with practical implementation

Optimisation of legacy systems was highlighted as crucial for ensuring cost-efficiency and sustainable modernisation in the banking sector. Cloud services and AI integration were seen as key to improving financial processes. The importance of cultural transformation was emphasised, with collaboration between banks and fintechs being essential for digital innovation. Challenges such as talent shortages, slow digital adoption in rural areas, and delays in implementing the national ID system were identified as barriers to enhancing KYC and credit risk assessments.

4.1.1 A senior executive from a major local bank emphasised that optimising legacy systems should take precedence over adopting entirely new technologies, with cost-efficiency being a key concern. This practical approach ensures that banks can modernise existing infrastructure while maintaining financial viability and keeping pace with industry demands.

- 4.1.2 A representative from a leading global cloud provider explained how cloud services can improve the speed and accuracy of financial processes, enabling seamless AI integration to enhance financial inclusion. He emphasised the need for secure, reliable data to ensure seamless transactions and faster decision-making, especially in digital lending, noting AWS's role in future-proofing technology in the Philippines.
- 4.1.3 A digital transformation leader noted that 70% of the digital transformation process is driven by people and culture. The bank's application programming interface (API)-led approach fosters external collaboration, particularly in open banking, where fintechs and banks can work together seamlessly. This highlights that successful transformation is not purely technological but also requires significant organisational change and cultural adaptation.
- 4.1.4 A senior representative from a fintech association identified talent shortages and slow digital adoption as significant challenges for rural banks. Overcoming these barriers is essential to ensuring digital transformation delivers innovation and practical solutions to underserved areas, particularly through scalable fintech platforms.
- 4.1.5 A participant highlighted the Philippine national ID system's role in enhancing KYC processes and financial inclusion. However, implementation delays, data accuracy issues, and the lack of physical signatures were cited as obstacles to its adoption by banks.
- 4.1.6 Another attendee discussed how the full integration of digital identities could improve credit risk assessments for underserved sectors like small and medium-sized enterprises (SMEs).
- 4.1.7 A representative from an international innovation hub cautioned that addressing vulnerabilities in digital identities and fraud prevention is crucial for the scalability and security of these innovations. This requires collaboration between the private sector and regulators.
- 4.1.8 Participants emphasised the importance of integrating AI-driven fraud detection systems into digital platforms to safeguard sensitive customer information.

4.2 Participants emphasised the importance of the Bangko Sentral ng Pilipinas (BSP) Credit Risk Database (CRD) for risk-based SME lending and its integration with digital systems. Rural banks' localised credit assessments were highlighted, with a call to scale these practices digitally. Alternative credit scoring using telco data was discussed as a key solution for underserved populations and MSMEs.

- 4.2.1 A participant highlighted the BSP's CRD initiative, which aims to facilitate risk-based lending for SMEs by collecting both financial and non-financial data. However, the integration of the CRD with existing digital infrastructures like the national ID system remains a challenge. Collaboration between banks, fintechs, and regulators is needed to fully leverage the database for broader financial inclusion. The success of the CRD is crucial in reducing lending costs and improving credit access for underserved segments.
- 4.2.2 An attendee discussed the role of rural banks in financial inclusion, noting that their community knowledge aids credit risk assessments. He emphasised the need to digitise this localised trust and scale it through digital platforms.

- 4.2.3 A representative said that reliance on alternative data, such as telco usage and spending habits, offers a promising model for alternative credit scoring for consumers new to credit. She pointed out how this model enables MSMEs and underserved markets to access financial services.
- 4.2.4 A banking executive discussed the need for credit scoring models to move beyond traditional metrics for underserved populations. He stressed that banks must invest in data science to create more inclusive financial products.
- 4.2.5 Another participant noted the slow pace of credit scoring system development in the Philippines compared to Thailand, where interbank data sharing has improved lending practices.
- 4.2.6 A discussion on the asymmetry of digitalisation between microfinance institutions and larger banks highlighted that women in microfinance tend to have lower default rates, presenting an opportunity to expand financial inclusion.

4.3 Ecosystem collaboration as a catalyst for financial services innovation

Collaboration in the Philippine banking sector is essential, focusing on open banking ecosystems and partnerships between banks, fintechs, and government agencies. Key points included building a shared fraud database to combat financial crime, rural bank-fintech partnerships to expand services, and compliant collaboration across institutions.

- 4.3.1 One participant shared their bank's strategy of opening APIs to fintechs and government agencies, creating an open ecosystem that drives competition and industry-wide transformation.
- 4.3.2 Another contributor stated that building a shared fraud and risk database across institutions is critical for preventing financial crime, noting challenges around data privacy and competition. He also stressed the need for collaboration among banks to develop anti-scam protocols, similar to Singapore's model.
- 4.3.3 An expert discussed how collaboration between rural banks and fintechs could expand financial services. While rural banks struggle with digital adoption, partnerships with fintechs offer promising solutions by combining community engagement with scalable digital platforms.
- 4.3.4 A senior representative pointed out that collaboration particularly through open banking ecosystems is crucial for advancing digital banking and fostering more inclusive and efficient financial services.
- 4.3.5 Another participant mentioned the need for greater standardisation in open banking to ensure regulatory compliance and foster a more interconnected financial ecosystem.

4.4 Operational resilience and overcoming barriers to modernisation in legacy systems and compliance

The discussions highlighted the shift to distributed microservice architecture, the need for cultural change alongside digital transformation, and the challenge of outdated KYC processes. While legacy systems remain a barrier to meeting regulatory demands and innovation, the consensus was clear: successful transformation requires not only the adoption of new technologies, such as cloud services, but also a deep alignment of people, culture, and compliance frameworks.

- 4.4.1 A banking executive highlighted their institution's transition from monolithic client-server architecture to distributed microservices, stressing the need for long-term planning to stay competitive. Philippines lags seven to 10 years behind its Southeast Asian peers in technology transformation, attributed to cultural resistance and complacency within the financial sector.
- 4.4.2 A participant from a leading bank pointed out that digital transformation in large legacy institutions involves not only technological changes but also a cultural shift. While progress is being made, deep-rooted institutional behaviours remain a challenge to modernisation while maintaining trust built through traditional customer engagement.
- 4.4.3 Another contributor mentioned that outdated KYC and fraud prevention processes coupled with a lack of standardisation in national ID systems, hinder many institutions. These issues lead to higher compliance costs and slower onboarding processes.
- 4.4.4 One participant highlighted the disconnect between regulatory demands and the technological capabilities of banks, especially those burdened by legacy systems. They stressed that optimising existing infrastructure should take priority before fully adopting new innovations.
- 4.4.5 An expert mentioned that the complexity of transforming legacy systems is a major challenge for banks as they navigate the digital space.
- 4.4.6 A contributor emphasised that compliance should be "by design," with security and regulatory frameworks embedded into technology development from the start.
- 4.4.7 A participant from a leading technology firm stressed that technology, when combined with cultural and people-driven transformation, is a critical enabler of progress in financial services. Cloud services can accelerate decision-making and optimise processes, improving customer experiences, but success depends on aligning people and culture with technology.

4.5 Streamlining compliance for global connectivity through regulatory evolution and cross-border payments

Industry leaders highlighted regulatory challenges and opportunities, emphasising the need for stronger frameworks for open banking, data sharing, and fraud prevention. Key developments include the anti-financial scam law, cross-border payment systems like Project Nexus, and advanced privacy technologies. Rising compliance costs, particularly related to ICT risks, were a concern, with calls for streamlined processes and better collaboration between banks and regulators.

- 4.5.1 One participant highlighted that the lack of comprehensive regulatory frameworks for open banking and data sharing is limiting innovation. They suggested that stronger advocacy from industry groups could help accelerate regulatory reform.
- 4.5.2 Another contributor discussed the opportunities created by the recently passed Anti-Financial Account Scamming Act (AFASA) in the Philippines, which enables formal collaboration between banks to share data and combat fraud. The national ID system is needed to strengthen fraud prevention, advocating for a unified anti-scam protocol similar to that of Singapore.
- 4.5.3 A senior banking executive noted that while data privacy and cybersecurity regulations are necessary, they often slow down financial inclusion efforts. Banks struggle to balance compliance with innovation and customer experience.

- 4.5.3 Two attendees expressed concerns over rising compliance costs, particularly those related to ICT risks. They emphasised the importance of streamlining compliance processes while ensuring adherence to both local and international regulations.
- 4.5.4 An expert discussed the importance of developing cross-border payment systems, citing initiatives like Project Nexus as crucial for building the Philippines's next-generation financial infrastructure. The exploration of privacy-enhancing technologies, such as zero knowledge proofs and multi-party computation was highlighted as a way to address increasing compliance costs amid growing regulatory demands. The introduction of Project Mandala, aimed at automating compliance processes using decentralised infrastructure for cross-border transactions, was also mentioned. Effective collaboration between regulators and banks was stressed as essential for ensuring robust security frameworks, especially as the central bank explores wholesale CBDCs to enhance the settlement of financial securities and cross-border transactions.

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Conclusion

- 5.1 Industry leaders emphasised adopting AI, blockchain, and cloud services to drive digital transformation in banking, while balancing the need for cultural shifts and high implementation cost.
- 5.2 The optimisation of legacy systems remains a priority for many banks, with cost-efficiency being a key concern as they integrate new technologies.
- 5.3 Collaboration between the public and private sectors, as well as cooperation among financial institutions, is vital for building secure and efficient financial ecosystems, particularly in areas like cross-border payments and fraud prevention.
- 5.4 The development of APIs and open banking frameworks is hindered by the lack of comprehensive regulatory frameworks in the Philippines, slowing innovation and data-sharing efforts.
- 5.5 Fintechs are driving financial inclusion through alternative credit scoring models based on spending habits and telco data, although the lack of a robust national ID system remains a major hurdle.
- 5.6 Rural banks and microfinance institutions face challenges in scaling digital platforms but continue to play a crucial role in financial inclusion by using local knowledge for credit assessments.
- 5.7 The rising costs of regulatory compliance, especially related to ICT risks and security, are a growing concern, prompting calls for streamlined processes and embedding compliance in tech development.
- 5.8 Cross-border payment initiatives led by central banks (e.g., BSP, Monetary Authority of Singapore, Otoritas Jasa Keuangan) offer opportunities for greater financial connectivity, though they require addressing regulatory and fraud prevention challenges.
- 5.9 The new anti-financial scam law enables formal collaboration between banks to share data and collectively combat fraud, drawing inspiration from Singapore's anti-scam protocols.
- 5.10 Industry leaders underscored the need to embed compliance frameworks into technology development to ensure security and regulatory adherence, driving long-term innovation and stability.

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Photo Gallery



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